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Sustainability Snapshot

PRICING CLIMATE RISK BEFORE ANTALYA

A South African investor position going into COP31

As South African investors prepare for COP31 in Antalya, the key questions are whether climate risk is reflected in the capital allocation decisions underpinning the country's transition, and how to interpret the local policy response over the next 12 months. Our preliminary view is that climate risk is not yet fully priced in, while a constrained budget, deep inequality, geopolitical factors and border carbon charges will shape the policy response.

> The evidence shows where money goes, but says very little about how it is priced.

We compare what South African rules require with how capital is allocated, read the policy outlook through the shared socioeconomic pathways and set out six positions investors can take into Antalya.

In this issue

What South African rules and guidance already require of investors regarding climate-related risk

The three constraints shaping climate policy and how shared socioeconomic pathways (which we describe below) add to the analysis

The key milestones over the next 12 months that indicate how policy may evolve

What COP31 is likely to deliver

The position we recommend South African investors take into COP31 and what it means for each role in the profession



Source: Bega, Mail & Guardian (2026)

Three questions before Antalya

This month's snapshot raises three questions for South African investors, as well as the professionals who advise them and report on their behalf. The first question is whether climate risk is reflected in how capital is allocated in South Africa and what evidence would demonstrate this. Second, which considerations will shape the policy response over the next 12 months and which developments will indicate how those considerations evolve over time? Third, what position should investors take ahead of COP31, which will take place in Antalya, Türkiye, from 9 to 20 November 2026?

We answer these questions by comparing current requirements and using the shared socioeconomic pathways (SSPs) to assess the conditions under which policy will be made and developed.

What we found

Pricing (see *The rules stop short of a price*). South African regulations require retirement funds, banks and insurers to consider or manage climate-related risks. However, whether the market prices climate risk in aggregate remains untested. The evidence shows where money goes, but says very little about how it is priced.

Constraints (see *Money, inequality and the border*). Policymakers face a fiscal situation that means they cannot fund the transition alone. South Africa is also a country the World Bank ranks as the most unequal among 164 in its database and trading partners now levy carbon charges at the border. Our analysis places South Africa between the regional rivalry and inequality pathways (SSP3 and SSP4), making both mitigation and adaptation more difficult.

Milestones (see *Dates to watch*). Events likely to affect cash flows over the next 12 months are mostly domestic or European. Treasury will decide on the carbon tax. The start of the carbon budget provisions and the first CBAM certificate cycle are also on the horizon.

COP31 (see *More process than money at COP31*). We expect COP31 to advance existing processes on adaptation finance and the just transition mechanism, while delivering little that will change cash-flow projections.

Position (see *Six positions for COP31*). Investors should price the policy that is enforced, treat announced policy as a scenario, and ask Pretoria for three things that would reduce uncertainty: a stated approach to carbon tax allowances, commencement dates for the carbon budget provisions, and a financing strategy for the NDC.



The rules stop short of a price

An investor prices climate risk in the forecast cash flows, the discount rate applied to them, the terms of lending and the weight a portfolio gives to exposed assets.

South Africa's rules cover some of these areas. Table 1 outlines what each instrument requires.

Table 1: What South African rules and guidance ask of investors on climate-related risk

Instrument	What it asks
Regulation 28 of the Pension Funds Act 24 of 1956	Requires retirement funds to consider factors that may materially affect the sustainable long-term performance of assets, including environmental, social and governance factors.
FSCA Guidance Notice 1 of 2019	Sets out the FSCA's expectations on how sustainability enters a fund's investment policy statement.
Prudential Authority Guidance Note 3 of 2025 (banks and insurers)	Four pillars of governance, strategy, risk management, and metrics and targets, modelled on IFRS S1 and S2; quantitative disclosure tables; replaces the 2024 notes.
FSCA sustainability disclosure requirements (in preparation)	ISSB-aligned requirements, beginning with large listed entities; work with the Department of Trade, Industry and Competition on an adoption roadmap.
FSCA guidance on ESG product marketing (in preparation)	Applies existing law, including the Financial Advisory and Intermediary Services Act and the Collective Investment Schemes Control Act, to ESG claims: accurate, not misleading and in plain language.
IFRS S2 and JSE Sustainability and Climate Disclosure Guidance	IFRS S2 requires scenario analysis commensurate with the entity's circumstances; the JSE guidance is aligned to it.

What bank lending reveals

19% to 61%
of the five largest banks' energy financing goes to fossil fuels

3% to 3.8%
of the loan book is sustainable finance, for three of the five banks

Bank lending offers the clearest view of how the above requirements have played out in reality. Just Share's 2026 review of the five largest banks finds that fossil fuels account for 19% to 61% of their energy financing, or 1% to 5.5% of their loan books (Just Share, 2026). It reports sustainable finance at 3% to 3.8% of the loan book for three banks. Whether the rate, tenor or covenants on those loans carry a carbon cost is another matter altogether. A more complete test would examine a carbon-cost assumption in valuation models, a disclosed set of scenarios, climate adjustments to discount rates or credit spreads and engagement requirements in manager mandates.

ISSA 5000 is effective for assurance engagements on sustainability information for periods beginning on or after 15 December 2026. Our July note found that scenario analysis and Category 15 financed emissions are the areas least prepared for that level of scrutiny.

Money, inequality and the border

If investors must price climate risk themselves, they need a sense of how policy will evolve. Governments shape climate policy based on what they can afford, who will bear the costs of implementation and the views of significant trading partners expressed through diplomatic channels.

R3.72tn

cost of climate action in the second NDC, 2026-2035

42.6%

of $14.36bn in JET pledges allocated by Q1 2026

1 of 164

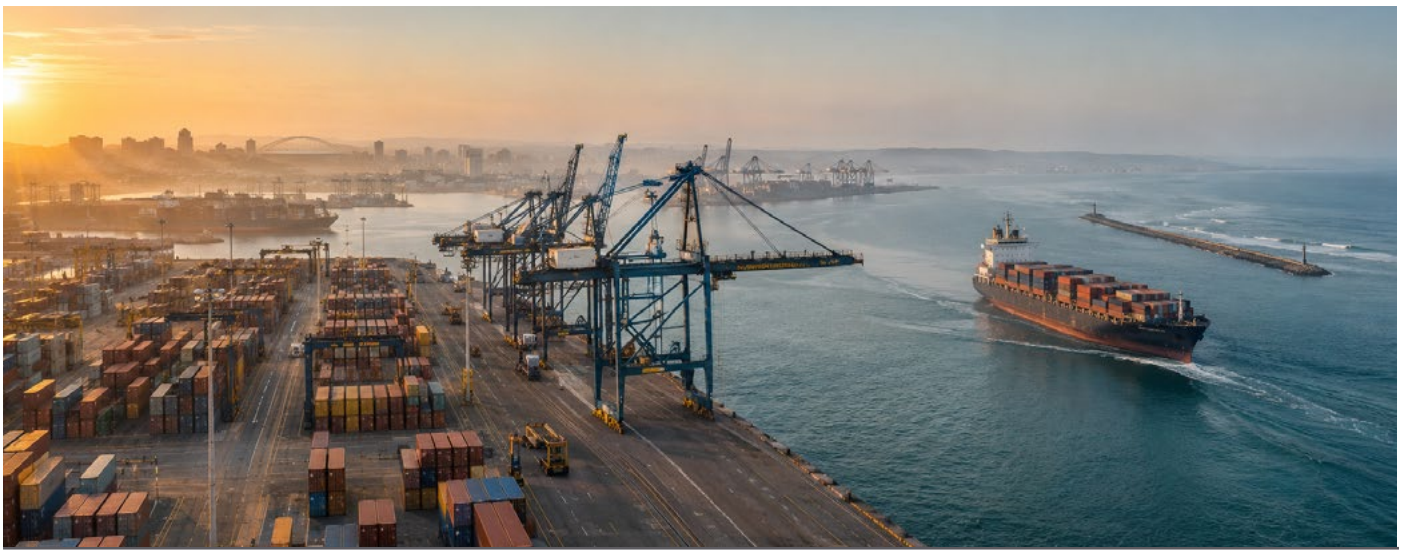
South Africa ranks most unequal in the World Bank's database

South Africa's second NDC estimates the cost of climate action at R3.72tn for 2026-2035 and states that a comprehensive financing strategy "will be developed" (Republic of South Africa, 2025). It anticipates $3 to $10 in private finance for every $1 of public finance. By the first quarter of 2026, the Just Energy Transition Partnership had allocated 42.6% of its $14.36bn in pledges (JET Project Management Unit, 2026), while officials continued to identify project pipeline readiness as a persistent bottleneck.

The World Bank ranks South Africa as the most unequal of 164 countries in its poverty database (World Bank, 2022). Coal remains central to employment in Mpumalanga, while South Africa's negotiating position puts the just transition at the heart of its climate response (Bega, 2026). Higher electricity or transport costs resulting from carbon pricing hit households least able to adapt the hardest.

> Higher electricity or transport costs resulting from carbon pricing hit households least able to adapt the hardest.

Meanwhile, trading partners are moving ahead. The EU's CBAM entered its compliance phase on 1 January 2026. Importers bringing in at least 50 tonnes of covered goods annually must purchase certificates from 1 February 2027 and surrender them by 30 September 2027 for imports made in 2026. If exporters cannot provide verified emissions data, the EU applies default values with markups of 10% in 2026, 20% in 2027 and 30% from 2028 (International Carbon Action Partnership (ICAP), 2026). The United Kingdom will launch a similar mechanism on 1 January 2027 (Clifford Chance, 2026). Donor support is also declining as the United States withdraws from climate co-operation and some European governments redirect aid to defence spending.



Somewhere between rivalry and inequality

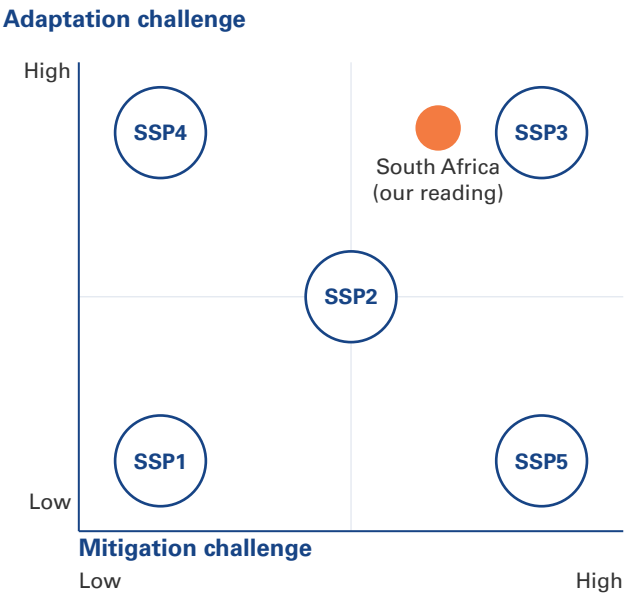
The SSPs help us understand all of this and what to expect by describing five ways the world could develop by 2100. An international team of climate scientists, economists and energy modellers developed them to describe socioeconomic change without new climate policy. Modellers then combine each pathway with a separate set of mitigation assumptions (Hausfather, 2018). The Intergovernmental Panel on Climate Change (IPCC) used the SSPs in its Sixth Assessment Report. Table 2 sets out the five pathways and our assessment of what each would mean for a South African investor.

Table 2: The five SSPs and what they could mean for investors

Pathway	Mitigation challenge	Adaptation challenge	Our reading for a South African investor
SSP1: sustainability The world shifts towards greener, more inclusive growth.	Low	Low	Finance flows to countries that need it and carbon prices converge upwards. Transition assets are repriced favourably and high-carbon assets lose value earlier than currently expected.
SSP2: middle of the road Social, economic and technology trends follow their historical path.	Medium	Medium	Progress is uneven. Models need a carbon price path with wide ranges and there is a delayed finance response.
SSP3: regional rivalry Nationalism returns and countries look inward. Growth is slow, and trade and co-operation weaken.	High	High	Aid and co-operation shrink as countries put national interests first. South African exporters face more carbon-related trade barriers, and the government bears more of the cost of adapting to climate change.
SSP4: inequality Gaps widen between and within countries. A connected, wealthy elite pulls away from a poorer majority.	Low	High	A connected, higher-income part of the economy decarbonises while poor communities cannot adapt. Physical and social risk concentrates in specific places and assets.
SSP5: fossil-fuelled development Fast growth runs on cheap fossil energy, with strong faith in markets and technology.	High	Low	Growth runs on fossil energy and wealth funds adaptation. Carbon-intensive assets keep value longer but face a sharper late adjustment.

Our analysis places South Africa between SSP3 and SSP4. For adaptation, extreme inequality, a tight budget and reliance on external finance point to a "high challenge". For mitigation, coal, a delayed gas programme and slow implementation also indicate a high challenge, although the rapid expansion of solar and storage may reduce its magnitude.

The pathways offer a recognised vocabulary for describing the assumptions that scenarios make about co-operation, inequality and trade. Preparers who identify the pathway underlying a scenario and explain how its policy assumptions follow from it are better equipped to defend the scenario to an assurance provider.



Dates to watch

The figure below lists the events over the next 12 months that will show how South African policy and external conditions are evolving. We have not ranked them, as each one shifts a different assumption in an investor's model.

Dated milestones for South African climate policy and its external conditions

9 to 20 Nov 2026

COP31, Antalya

Timing: 9 to 20 November 2026
What would show movement: Outcomes on the adaptation finance benchmark, the just transition mechanism and loss and damage funding (see **More process than money at COP31**).
Assumption it informs: Level and timing of external finance in a base case.

15 Dec 2026

ISSA 5000 effective date

Timing: 15 December 2026
What would show movement: Assurance engagements that reach climate disclosures.
Assumption it informs: Reliability of disclosed emissions and scenario data.

Jan 2027

UK CBAM

Timing: January 2027
What would show movement: Scope and rates.
Assumption it informs: Export exposure beyond the EU.

Feb 2027

February 2027 budget

Timing: February 2027; date to be announced
What would show movement: Any change to the 60% basic allowance, the 95% maximum or the rate path after 2030.
Assumption it informs: Effective carbon cost per tonne.

1 Feb 2027 to 30 Sep 2027

EU CBAM certificate cycle

Timing: Sales from 1 February 2027; first surrender by 30 September 2027
What would show movement: Pace of the phase-out of free EU allowances; a Commission proposal of 17 July 2026 would extend it.
Assumption it informs: Export margins and their timing.

No date set yet

Commencement of the R640 per tonne rate above a carbon budget (Carbon Tax Act)

Timing: Date set by the finance minister by notice; none confirmed yet.
What would show movement: A gazetted commencement date.
Assumption it informs: Whether a carbon budget carries a price.

Carbon budget and mitigation plan regulations (Climate Change Act)

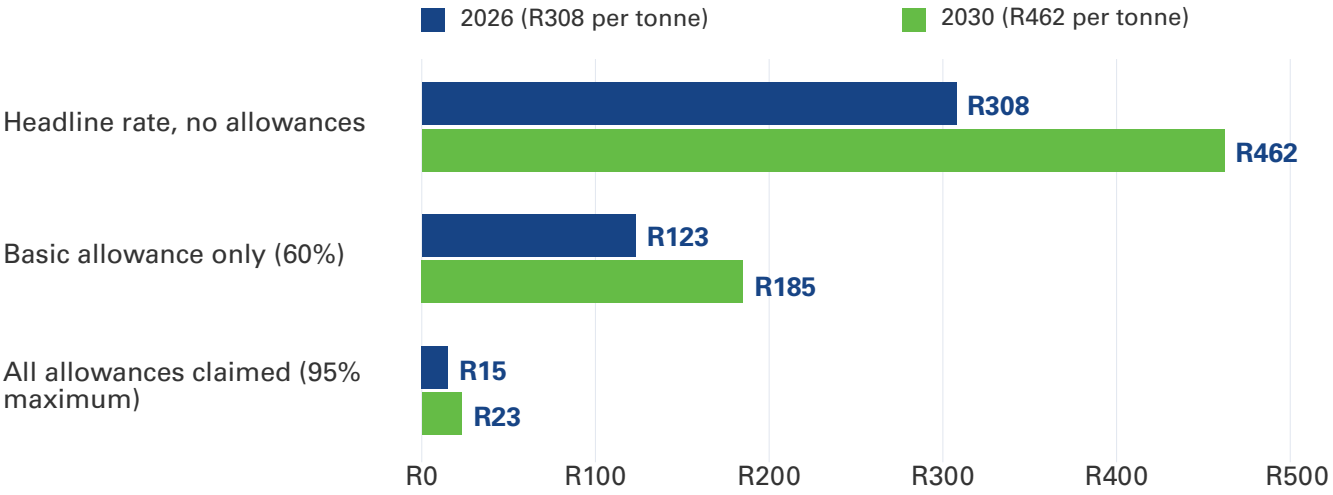
Timing: Draft published for comment in 2025
What would show movement: Final regulations and sectoral targets.
Assumption it informs: The mandatory obligations that companies face.

NDC financing strategy and bilateral Article 6.2 agreements.

Timing: No date; we found no bilateral Article 6.2 agreement for South Africa
What would show movement: Publication of the strategy; first agreements.
Assumption it informs: Share of the R3.72tn with a clear pathway to securing that funding.

Applying the headline carbon tax rate to every tonne overstates near-term costs for most large emitters, while assuming allowances continue beyond 2030 forces investors to make a policy decision. The graphic below reflects the difference.

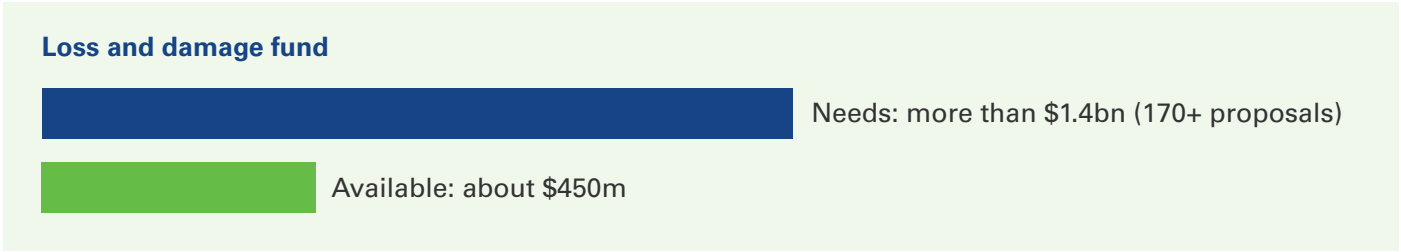
Effective carbon tax per tonne of CO_2e by allowance case (R)



The spread is wide. At the same headline rate, a company claiming every allowance pays about one-eighth as much as a company claiming only the basic allowance. The allowances barely change through 2030, even as the rate increases.

More process than money at COP31

South Africa heads to COP31 seeking funding in a year when less money is available. The loss and damage fund has received more than 170 proposals, with needs exceeding $1.4bn, compared with about $450m that is available (Bega, 2026).



The government's stated priorities include tripling adaptation finance by 2035 and establishing a way to track it, increasing funding for loss and damage, putting an operational just transition mechanism in place and responding to what the environment minister calls "unilateral climate-related trade measures" (Bega, 2026). Table 3 sets out our interpretation of each expectation.

Table 3: Expected COP31 outcomes relevant to South African investors

Expectation	Our reading of likelihood	Why
Adaptation finance benchmark (triple by 2035)	Progress on process likely; new money unlikely in the near term.	Needs exceed supply, and adaptation talks in Bonn in June were difficult (UNU, 2026).
Just transition mechanism	An outline is likely; operational detail is still not available.	Design is due at COP31; South Africa supports operationalising it.
Loss and damage funding	Unlikely to close the current gap.	Needs more than $1.4bn against about $450m available.

Expectation	Our reading of likelihood	Why
Trade measures	Dialogue likely to continue; no change to the CBAM schedule is expected.	COP 30 opened a three-year trade dialogue, while the EU and the UK have legislated their mechanisms.
Fossil fuel roadmaps	Coalition-based and outside the plenary.	UNU presents roadmaps as an option for willing countries and not as a commitment.
Climate overshoot	Likely to feature in the debate.	UNU states that overshoot looks likely.

For investors, the most useful outcomes may happen outside the main proceedings in the form of bilateral Article 6.2 agreements, blended finance vehicles that fund project preparation, and coalitions focused on specific sectors.

Six positions for COP31

That brings us back to our third question of what position investors should take ahead of COP31. We recommend six positions, each framed as a question investors can put to a board, an investment committee or a manager.

Six investor positions and the question behind each

1

Price what is enforced

Does our model use effective carbon tax rates by company, and have we tested the allowance assumption after 2030?

Evidence: Carbon tax chart

2

Treat announced policy as a scenario

Which carbon budget and R640 per tonne rate commencement scenarios do we rely on in our base and downside cases?

Evidence: Dates to watch

3

Plan for full border exposure

Do the exporters have verified emissions data, and what is their exposure to the EU and UK mechanisms?

Evidence: Money, inequality and the border

4

Ask for scenario discipline

Can each scenario narrative be traced to a named pathway, with risk sign-off on its assumptions?

Evidence: Somewhere between rivalry and inequality

5

Ask the government for timeframes

Has Treasury stated its approach to allowances, the commencement of the carbon budget provisions and a financing strategy for the NDC?

Evidence: Dates to watch

6

Back pipeline readiness at COP31 and locally

Which blended finance and Article 6.2 routes would fund project preparation in our sectors?

Evidence: More process than money at COP31

Investors control positions 1 to 4. Positions 5 and 6 depend on the government and negotiators, but investors can influence them through industry bodies, consultation responses and other engagement.

What it means for the profession

Role by role

Preparers and CFOs. Document the carbon-cost assumption used in impairment testing, forecasting and scenario analysis and explain the allowance case that informs it. Ask risk teams to sign off on scenario assumptions.

Trustees and asset owners. Ask managers for a carbon-cost assumption, a disclosed scenario set, a climate adjustment and engagement terms. Record their answers in the investment policy statement.

Auditors and assurance providers. Prepare for ISSA 5000, effective 15 December 2026, and plan to test the reasonableness of policy assumptions and not just the emissions figures.

Advisers and chartered accountants in industry. For exporters, emissions data is a balance-sheet issue. Without verified figures, EU importers will pay based on marked-up default values from 2026.

As SAICA. We should consider issuing guidance for members on carbon cost assumptions in valuation and impairment work and on interpreting allowance structures, to support a common approach.

Conclusion

South African rules ask investors to consider climate risk and leave pricing decisions to them. The government has little room to act, given a fiscus short of finance, the highest measured inequality among 164 countries and trading partners that charge for carbon at the border. Our reading places the country between two difficult pathways. COP31 will move processes more than cash flows. Investors can use the "Dates to watch" milestones to track policy developments, starting with the events in November and December 2026, and put the six positions set out above into practice.